

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE  
TRANSITIONAL PASS-THROUGH  
PAYMENTS MADE UNDER THE  
HOSPITAL OUTPATIENT PROSPECTIVE  
PAYMENT SYSTEM FOR DRUGS,  
BIOLOGICALS, AND MEDICAL  
DEVICES AT SAINT MARY'S HOSPITAL**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**JANUARY 2002  
A-03-01-00024**



**DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**OFFICE OF INSPECTOR GENERAL**  
**OFFICE OF AUDIT SERVICES**  
**150 S. INDEPENDENCE MALL WEST**  
**SUITE 316**  
**PHILADELPHIA, PENNSYLVANIA 19106-3499**

January 22, 2002

Ms. Deborah L. Thexton  
Administrative Director of Finance  
Bon Secours Richmond Health System  
8580 Magellan Parkway  
Richmond, Virginia 23227

Dear Ms. Thexton:

This final report provides the results of our review of Medicare Transitional Pass-Through Payments Made Under the Hospital Outpatient Prospective Payment System for Drugs, Biologicals, and Medical Devices at Saint Mary's Hospital for the period August 1, 2000 through June 30, 2001. Saint Mary's Hospital located in Richmond, Virginia is part of the Bon Secours Richmond Health System (BSRHS). The BSRHS processes all billing and reimbursements of pass-through items used by Saint Mary's Hospital.

The objective of our review was to determine whether transitional pass-through payments for drugs, biologicals, and medical devices were reimbursed in accordance with Medicare laws and regulations. Based on our review of payments for 100 sampled items, we found, with minor exceptions, that BSRHS complied with Medicare laws and regulations for billing transitional pass-through drugs, biologicals and medical devices. These minor exceptions had an insignificant effect on the overall Medicare reimbursement.

In a written response to our draft report, BSRHS concurred with our findings. BSRHS agreed with the minor exceptions identified by this review and has taken action to correct the discrepancies. The full text of BSRHS's response is included with this report as an Appendix.

## **BACKGROUND**

In August 2000, the Centers for Medicare and Medicaid Services (CMS) implemented the new prospective payment system for hospital outpatient services (OPPS). The Balanced Budget Act of 1997 amended Section 1833(t) of the Social Security Act (the Act) authorizing the implementation of OPPS. The Congress enacted major changes to OPPS in 1999 under the Balanced Budget Refinement Act adding Section 1833(t)(6) to the Act. Section 1833(t)(6) provides for temporary additional payments or "transitional

pass-through payments” for certain innovative medical devices, drugs, and biologicals for Medicare beneficiaries. The Congress intended these items to be available to Medicare beneficiaries, even if the prices for these new and innovative items exceeded Medicare’s regular scheduled OPPS payment amounts. As a result, beginning in August 2000, when OPPS was implemented, Medicare began paying for qualified transitional pass-through items above and beyond OPPS payment rates. For drugs and biologicals, the pass-through payment is the amount by which 95 percent of the average wholesale price exceeds the applicable fee schedule amount associated with the drug or biological. For devices, the pass-through payment equals the amount by which the hospital’s charges, adjusted to cost, exceeds the OPPS payment rate associated with the device.

Saint Mary’s Hospital located in Richmond, Virginia is a 391 bed hospital that is part of the BSRHS, a not-for-profit, health care system that operates 3 other hospitals, more than a dozen physician practices, and numerous other health care services in central Virginia. The BSRHS is part of the Bon Secours National Health System that includes 24 acute-care hospitals with over 5,500 beds.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our review was to determine whether transitional pass-through payments for drugs, biologicals, and medical devices were reimbursed in accordance with Medicare laws and regulations. Based on our analysis of the CMS’s National Claims History File, we judgmentally selected Saint Mary’s Hospital for review.

To accomplish our objective we:

- Used the CMS’s National Claims History File to identify pass-through payments made to the hospital;
- Generated a stratified random sample of 100 items (drugs, biologicals, or medical devices as identified by status code indicators “G”, “H”, “J”), each of which represent one line item of service from a paid hospital claim;
- Reviewed the itemized bill, Medicare claim (UB-92) and remittance advice to determine if each sample item was billed appropriately and paid correctly by Medicare;
- Obtained an understanding of the BSRHS’s billing process through meetings with BSRHS personnel; and
- Reviewed applicable Federal Registers and CMS Program Memoranda to determine the eligibility of devices for pass-through payment.

Our review was conducted in accordance with the generally accepted government auditing standards. Our review of internal controls was limited to obtaining an understanding of the controls concerning the accumulation of charges, creation of

outpatient bills and submission of Medicare claims. The objective of our review did not require an understanding or assessment of the complete internal control structure at BSRHS or Saint Mary's Hospital.

We conducted our review during September and October 2001 at BSRHS offices in Richmond, Virginia.

## **RESULTS OF REVIEW**

Our review found that, with the exception of minor billing errors, BSRHS was reimbursed in accordance with Medicare rules and regulations. We determined that all sample items were eligible for transitional pass-through payments. Medicare reimbursed BSRHS \$142,201 for the 100 sample items -- \$136,188 for 60 pass-through devices and \$6,013 for 40 pass-through drugs and biologicals.

We found that one device was billed incorrectly due to a data entry error. The BSRHS incorrectly listed the charge amount for a Catheter, (HCPCS code C1725). As a result, BSRHS was overpaid. The BSRHS agreed and has already taken action, adjusted the claim and reimbursed the Medicare program for the overpayment.

We also found that six drugs were billed incorrectly due to incorrect quantity conversions from the number of units dispensed to the number of units billed Medicare. These incorrect quantity conversions, both over billings and under billings, resulted in minor billing errors. For example, according to CMS guidance, each 10-milligram dose of Dolasetron should be billed as 1 unit (HCPCS code J1260). In one case we reviewed, the hospital billed Medicare for 1 unit, or 10 milligrams, of Dolasetron. However, pharmacy records indicate that 100 milligrams, or 10 units, of the drug were dispensed. The remaining five billing errors were quantity discrepancies similar to this. The BSRHS agreed with our conclusions and stated that they are in the process of correcting the errors.

## **CONCLUSION AND RECOMMENDATION**

Our review found that all drugs, biologicals and medical devices in our sample were eligible for reimbursement as pass-through items. We found that, for the most part, BSRHS was reimbursed for these pass-through items in accordance with Medicare rules and regulations. However, we identified minor billing errors caused by a data entry error for a pass-through device and incorrect quantity conversions from the amount dispensed to the amount billed for certain pass-through drugs. The BSRHS has corrected the data entry error and is working to adjust claims affected by the quantity differences.

To prevent such errors from occurring in the future, we recommend that BSRHS use the results of our audit to stress to its employees the need to use correct data in generating Medicare claims.

## BSRHS RESPONSE

In a written response to our draft report, BSRHS concurred with our findings. BSRHS agreed with the minor exceptions identified by this review and has taken action to correct the discrepancies. The full text of BSRHS's response is included with this report as an Appendix.

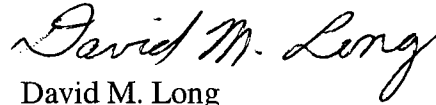
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Final determinations as to the actions taken on all matters reported will be made by the U.S. Department of Health and Human Services action official named below. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5).

To facilitate identification, please refer to Common Identification Number A-03-01-00024 in all correspondence relating to this report.

Sincerely yours,



David M. Long  
Regional Inspector General  
for Audit Services

Direct Reply to HHS Action Official:

Steven McAdoo, Acting Regional Administrator  
Centers for Medicare and Medicaid Services - Region III  
U.S. Department of Health and Human Services  
150 South Independence Mall West, Suite 216  
Philadelphia, Pennsylvania 19106-3499



BON SECOURS  
RICHMOND HEALTH SYSTEM  
Bon Secours Health System

January 14, 2002

RE: Common Identification Number A-03-01-00024

Mr. David Long  
Department of Health & Human Services  
Office of Inspector General  
Office of Audit Services  
150 S. Independence Mall West, Suite 316  
Philadelphia, PA 19106-3499

Attention: Mr. David Long

Dear Mr. Long:

Our response to the draft findings of the review of Medical Transitional Pass-Through Payments conducted by the Office of Inspector General at St. Mary's Hospital is as follows:

- One device was billed incorrectly due to a data entry error. The claim has been adjusted and Medicare has been reimbursed. The data entry error has also been corrected.
- Six pharmaceuticals were billed incorrectly due to incorrect quantity conversions from the number of units dispensed to the number of units billed to Medicare. The conversion errors have been corrected in our pharmacy system. The accounts are under review for rebilling to Medicare and upon completion of the review, Medicare will be rebilled appropriately.

We appreciate the opportunity to participate in this audit and to work with the Department of Health and Human Services.

Sincerely,

Deborah L. Thexton  
Administrative Director of Finance  
Bon Secours Richmond Health System  
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